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STUDY PROJECT

TURKEY: A BRIDGE TO THE MIDDLE EAST

BY

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Turkey's geostrategic importance to the North Atlantic Treaty Organization (NATO) is widely recognized in the West. Sharing a common border with the Soviet Union and maintaining the second largest standing army in NATO, Turkey is positioned astride the main southern route of advance into western Europe from the East. It is this NATO role that is most often used as the rationale for United States military and economic aid. Often

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neglected is the critical role Turkey plays as a barrier to Soviet expansion and influence in the Middle East. Recent improvement of economic and diplomatic relations with other Islamic nations has added a new dimension to this equation. Today, Turkey is enjoying the most prosperous period it has experienced since the decline of the Ottoman Empire. Since 1980, rapid economic growth has resulted in a significant increase in trade with Arab states and this has led to corresponding increases in cultural and diplomatic relations. Increased influence connotes a stronger voice in issues affecting the region. The government's foreign policy objectives are a direct reflection of Turkey's geographical location, historical ties, and expanding Arab relations. They are also in consonance with United States national security interests. As an outsider, the United States is naturally handicapped in its ability to exert a direct influence in regional affairs. Turkey is an ideal partner to help bridge this gap. However, Turkey's continued influence is in large measure dependent upon its economic growth and stability. Therefore, the United States should vigorously pursue policies which would directly benefit the Turkish economy. Such action would make Turkey an even more valuable partner, one that is not only fully committed to the United States and the Western alliance, but also enjoying a degree of influence in the most volatile region in the world today.

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USAWC MILITARY STUDIES PROGRAM PAPER

TURKEY: A BRIDGE TO THE MIDDLE EAST

AN INDIVIDUAL STUDY PROJECT

by

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ABSTRACT

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Turkey's geostrategic importance to the North Atlantic Treaty Organization (NATO) is widely recognized in the West. Sharing a common border with the Soviet Union and maintaining the second largest standing army in NATO, Turkey is positioned astride the main southern route of advance into western Europe from the East. It is this NATO role that is most often used as the rationale for United States military and economic aid. Often neglected is the critical role Turkey plays as a barrier to Soviet expansion and influence in the Middle East. Recent improvement of economic and diplomatic relations with other Islamic nations has added a new dimension to this equation. Today, Turkey is enjoying the most prosperous period it has experienced since the decline of the Ottoman Empire. Since 1980, rapid economic growth has resulted in a significant increase in trade with Arab states and this has led to corresponding increases in cultural and diplomatic relations. Increased influence connotes a stronger voice in issues affecting the region. The government's foreign policy objectives are a direct reflection of Turkey's geographical location, historical ties, and expanding Arab relations. They are also in consonance with United States national security interests. As an outsider, the United States is naturally handicapped in its ability to exert a direct influence in regional affairs. Turkey is an ideal partner to help bridge this gap. However, Turkey's continued influence is in large measure dependent upon its economic growth and stability. Therefore, the United States should vigorously pursue policies which would directly benefit the Turkish economy. Such action would make Turkey an even more valuable partner, one that is not only fully committed to the United States and the Western alliance, but also enjoying a degree of influence in the most volatile region in the world today.

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INTRODUCTION

Turkey's geostrategic importance to the North Atlantic Treaty Organization (NATO) and the West has long been recognized. Maintaining the second largest standing army in NATO, Turkey sits astride the primary southern route of Warsaw Pact advance into Western Europe and controls the strategic Straits of the Bosphorus and the Dardanelles, blocking entry into the Mediterranean from the Black Sea. It is this NATO role that is most often cited as the rationale for United States military and economic aid. Often neglected is the crucial role Turkey plays on the northern flank of the Middle East as a barrier to Soviet expansion and a bridge to United States interests in the region.

Today, the United States is the dominant outside power in the Middle East. With this power comes a propensity to play an active role in regional affairs. Yet, frequently these efforts are severely hampered by the fact that the United States is an "outsider," with only limited ability to exert a direct influence. Not only is it separated geographically, it lacks that common bond and cultural heritage that exists among the Arab nations. These countries are not only confronted with internal and regional problems not found in the United States, their view of the world is based upon their own unique experiences which

have shaped their outlook. As a result, the United States will remain an outsider in the eyes of the Arab world.

Therefore, the United States must often seek other avenues to achieve its desired objectives. As Liddell Hart has argued in the context of adversarial relationships, "Alike in policy and strategy...the indirect approach is the most effective way to upset the opponent's balance, psychologically and physically, thereby making possible his overthrow."[1] This paper does not propose the overthrow of any government; however, even among friendly nations, conflicts of interest do not always have to be resolved head-on. Often, the indirect approach is more effective.

Unlike the United States, Turkey enjoys the status of being European, with an Asian heritage and strong cultural and religious ties to the Middle East. Since 1980, Turkey has also made substantial progress in solving many of its economic problems, resulting in renewed trade and diplomatic relations with the Arab countries. Thus, Turkey is an ideal partner to help bridge the gap between the United States and the Middle East. However, Turkey's ability to assume this role is largely dependent upon its continued economic growth and stability. And, Ankara still faces some tough challenges: double digit inflation and unemployment, a large foreign debt, and limited investment capital. It is in this context that the United States could not only help a close friend and ally, but also further its own national security interests [indirect approach] in the Middle East.

This paper examines the Turkish economy and its prospects for the future. It analyzes the historical setting, current economic conditions, and the expanding relations Turkey has been pursuing with other Islamic nations in the Middle East. Against this background, the paper discusses United States objectives in the region and offers some policy proposals which would further the national interests of both Turkey and the United States.

ENDNOTES

1. B. H. Liddell Hart, Strategy, p. 228.

CHAPTER II

THE ECONOMY OF TURKEY

The transition from military to civilian rule on December 13, 1983, heralded the beginning of a new era in Turkey's quest for economic independence. In 1980, when the military seized control of the government, Turkey was facing political, social, and economic crisis: terrorist killings of political radicals were a daily occurrence, governmental authority over the countryside was disintegrating, and the economy was in chaos. The aim of the military takeover was not a coup in the classical sense of gaining permanent power, but rather an attempt by the military leadership to restore law and order, reestablish a functioning parliamentary government and stabilize the economy. At the outset, the National Security Council, which was the de facto military ruling body, made it clear that the transfer of power was temporary and pledged to restore democratic rule at the earliest opportunity. Meanwhile, they set about establishing reforms which were designed to strengthen the governmental apparatus and reverse the economic conditions facing the nation.[1]

The individual called upon by the military council to guide the nation toward economic recovery was Deputy Prime Minister Turgut Ozal, a leading Turkish expert in international finance and chief economic advisor to the previous civilian

government. Convinced that one of Turkey's major problems was an inward looking economy with industrial policies inappropriately based on import substitution and limited foreign trade, he immediately embarked upon a liberalization program to reduce the "favored status" of state economic enterprises (SEE) and set in motion new measures to stimulate exports within a more competitive, free-market setting.[2] Since that time, Ozal has been the major force behind the economic recovery of Turkey. He has decreased government bureaucracy, liberalized foreign trade and exchange transactions, placed emphasis on the development of money and capital markets, provided greater autonomy to local administrators for public services, and renewed emphasis in the operation of special funds designed to encourage investment.[3] These measures were a radical departure from earlier programs which had relied primarily on strict government control of the economy.

BACKGROUND

Historically, the Turkish people have a strong tradition of respect for authority and the state. At the core of this tradition is the concept of patrimonialism dating back to the Ottoman Empire, as personified by the sultan whose power to rule was absolute. During the Eighteenth and Nineteenth Centuries, as the sultans gradually became less powerful, this concept transferred to the state. Thus, a legacy of the Ottoman Empire is the notion that the state is the proper repository of

legitimate authority, that the social order over which the state presides should be stable and unchanging, and that a natural division exists between the ruler and the ruled.[4]

Ottoman attitudes and values were particularly apparent in the economic structure, where government not only directly controlled the market mechanisms, but also owned the land and the natural resources within. Government determined the distribution of wealth and this distribution was based, not upon productivity, but social status.

> "In short, Ottoman economics was characterized by a belief that the economy was static, that is, not liable to grow, and that the state had the right, the power, and the duty to regulate economic activity in such a fashion as to assure the welfare of all members of the hierarchical system, which, in turn, was not to be questioned, inasmuch as it was ordained by Divine Will."[5]

Therefore, the social movement which had fostered a strong class of entrepreneurs and industrialists in western nations during this period did not materialize in Ottoman Turkey. Instead this vacuum was filled "...by the overwhelming forces of competition from European manufactured goods backed by European political power."[6] This ultimately led to an economy heavily dependent upon foreign capital and manufactured goods.

Etatism

By 1920, following World War I and the final collapse of the Ottoman Empire, when Mustafa Kemal Ataturk came to power,

Turkey was in economic bankruptcy. Under Ataturk's leadership, modernization became a primary objective and major changes occurred in the legal system, language, religion, and education. For example, recognizing that English was fast becoming the new lingua franca, and determined to modernize Turkey for life in the 20th century, Ataturk switched the alphabet from Arabic to Roman. Yet, these changes were principally social and political. Only limited effort was directed toward refueling the economy and that which was undertaken was a result of government sponsorship (e.g. expansion of the railroad network, the first steel mill, etc.), not private enterprise. There were several factors inherent in this course of events. First, the more able of the population continued to seek government and professional careers which had proven in the past to be more profitable than the less respected commercial or industrial occupations. Also, those few with sufficient entrepreneurial talent and inclination lacked the requisite capital to embark upon such a venture. Finally, the Ottoman legacy of the government's role in the economy continued to propel Turkey toward a form of state capitalism based upon government owned and operated enterprises, "...the Turkish doctrine of etatism or statism in economic policy."[7]

Early Post-World War II Years

By 1948 and the arrival of United States aid in the form of the Marshal Plan, the cumulative effects of a depression, the

lack of a solid industrial base and the impact of World War II left Turkey only slightly more prosperous than in 1920. Although the United States encouraged Turkey to place more emphasis on private enterprise and initiative, the government refused to abandon its "etatist" policy of tight import controls, government subsidies, and artificially high exchange rates. State economic enterprises continued to receive "most favored" status to the detriment of the private sector.

During the later half of the 1950's, Turkey experienced a new wave of inflation simultaneously with slowed industrial development and severe balance of payment deficits. Attributed

Table 1[8]

Demand and Output of Principal Manufactured Products, 1962-1978 (by value)

	Production as Percentage of Demand	
	1962	1978
Processed food, drink, and tobacco	114.1	104.6
Textiles and clothing	99.9	103.3
Plastic and rubber products	33.6[a]	96.5
Chemicals and petroleum products	75.8[b]	83.0
Cement and cement products	99.7[b]	102.9
Iron and steel products	75.1	84.7
Machinery	25.2	63.6
Vehicles	50.2	84.7

[a] Excluding plastic products
[b] Excluding cement products

Sources: William Hale, The Political and Economic Development of Modern Turkey (London: Croom Helm, 1981, reprinted 1984), Table 11.5, p. 194; based on State Planning Organization (SPO), Second Five Year Development Plan, 1968-72 Ankara: SPO, 1969, Section 9; Dördüncü Beş Yıllık Kalkınma Planı (Fourth Five Year Development Plan), Ankara: SPO, 1979, Section 4.

to poor government planning, in 1961 the State Planning Organization was established to provide five-year plans for the public sector in the belief that the solution lay in increased government regulation of the economy. The short term results were encouraging. Throughout the 1960's and into the 1970's, the GNP averaged between 6 and 7 percent growth in real terms.[9] The industrial base also expanded, shifting from primarily consumer goods to a more comprehensive base of intermediate and capital goods (Table 1).

The structural shift in the economy also occurred in the agricultural sector. In 1950 Turkey was overwhelmingly dependent upon agriculture as a source of livelihood. Approximately 79 percent of the labor force was engaged in agricultural production which accounted for 50 percent of the GNP. By 1973 these figures decreased to 63.5 and 29 percent respectively, without a shortage of available food stuffs. The net effect of increased agricultural productivity has been the movement from an agrarian to a more urban-industrialized society.[10]

During this period Turkey also benefited from foreign assistance. Road building projects provided a transportation network throughout the country, which heretofore was limited to trunk rail lines of pre-World War II vintage, furthering communication and migration as well as commercial opportunities. Textile manufacturing also saw a resurgence. In fact, demand for ready-to-wear clothes, as a result of moving toward more synthetics, increased exports to the point where both the United

States and European producers demanded import protection quotas. Basic industries such as iron and steel likewise expanded. Using United States funds in the early 1960's, Turkey built its second steel mill and followed that project with a third steel complex, an aluminum plant, and an oil refinery with Soviet aid.[11]

The emphasis on industrial growth, however, was not without its problems. Government interference continued to plague private enterprises and cause havoc with market mechanisms. Consistent high-tariff protection in support of less than efficient state enterprises not only fueled inflation, but dampened investment in the private sector where similar incentives were not available.

The Oil Crisis

With the arrival of the oil crisis in the mid 1970's, the economy began to unravel. Like many other nations, Turkey is heavily dependent upon foreign sources of oil, producing only 20 percent of its needs domestically. When the price of oil soared, the result was a rapid rise in the balance of payments deficit in order to meet the increased costs. However, in an attempt to shelter the population from its effects, domestic prices were held down through government subsidies. Additionally, the exchange rate was maintained at an artificially high level which resulted in continued demand for foreign goods. With Turkey's trading partners facing a recessionary period and rising world

prices, demand for Turkish exports declined, further increasing its balance of payments deficit. In order to finance this increased deficit, Turkey initially began to expend its reserves. Once the reserves were depleted, the government was forced to turn to the public sector to finance an already burgeoning debt.[12]

By 1980, the economy was in crisis. Real GNP was falling by 1.1 percent (industrial and trade sectors registered declines of 6 percent and 2.4 percent respectively).[13] Compounding the problem was a record high inflation rate of 105.7 percent[14] and an unemployment rate of 14.8 percent.[15] Such was the setting when the military leadership intervened on September 12, 1980.

A NEW BEGINNING[16]

Assuming the reins of an economic program which had serious imbalances, such as three-digit inflation and a crippling balance of payments deficit, Deputy Prime Minister Ozal made radical changes in policy. As discussed earlier, previous efforts at economic growth were coupled with the philosophy of "etatism". The new strategy, however, "...centered on the enforcement of a strict stabilization programme, accompanied by measures aimed at reducing the scope, and increasing the efficiency, of State intervention, whilst emphasizing reliance on market forces to improve the structure of the economy."[17]

To accomplish these stabilization goals, a wide number of

policy measures were implemented. To reduce the budget deficit, the government increased the tax base, raised indirect tax rates, improved tax collection procedures, and imposed strict limits on government expenditures, particularly investments and subsidies. State enterprises were improved through price increases, wage expenditure reductions, and decreased investments in the manufacturing sector. Monetary policy was also tightened and interest rates were substantially increased. Likewise, ceilings were established and enforced on Central Bank credit for both public and private sectors.

In order to hold down income and demand to reduce inflation, the Supreme Arbitration Board set specific guidelines for wages and allowed only minimal increases in agricultural support prices.

Action was also taken to stimulate exports. Fixed exchange rates were replaced by periodic adjustments, resulting in a substantial devaluation of the Turkish lira, and numerous fiscal and financial export incentives were provided for both the public and private sectors.

Efforts were not limited to inflation and balance of payment policies, but were also directed at improving the financial system. Traditionally, interest was based on an administratively complex system of set rates. This was changed to fixing the rates of the banking system at regular intervals. The banking industry as a whole also came under close supervision, encouraging banks to increase capital, close

inefficient branches, limit credit risks, and provide protection for small investors.

Of all the policy measures implemented during the early 1980's, probably the most important and far reaching were in the area of foreign exchange and trade. With the adoption of a more realistic exchange rate, substantial tax rebates for exports, and preferential access to credit and foreign exchange, Turkish exports began to increase dramatically. At the same time, import regulations were significantly liberalized to encourage the development of a more efficient, competitive domestic market. All goods could now be freely imported without quota, although there remained a surcharge for selected luxury items. Turks were able to travel abroad with up to $1,000 in Turkish lira and an additional $2,000 in foreign currency. Foreigners were permitted to purchase Turkish real estate and both resident and nonresidents could hold foreign exchange.

CURRENT TRENDS

Overall, the economic strategy adopted in 1980 appears to be successful. Since 1981, GNP has averaged 5.5 percent growth with industry showing the most impressive gains (7.9 percent), particularly in the manufacturing and energy sectors (Table 2). Construction, which lagged early on, also appears to have gained some momentum recently, especially in the private sector. In fact, private investment appears to have taken hold in almost all of the industries. Since 1982, private sector investment has

Table 2[18]

Supply and use of resources

	1986 Current prices		Average volume change		Percentage volume change over previous year						
	TL billion	As per cent of GNP/GDP	1973-77	1978-80	1981	1982	1983	1984	1985	1986	1987[1]
GNP at market prices	39 310	100.0	6.5	1.8	4.1	4.5	3.3	5.9	5.1	8.1	7.4
Foreign balance[2]	1 023	2.6	-1.7	4.2	2.5	1.7	-1.3	0.6	0.7	-3.4	1.0
Exports	8 566	21.8	-3.9	14.5	47.0	24.9	9.1	20.4	11.3	-0.6	24.7
Imports	9 589	24.4	7.9	-10.5	15.7	10.8	13.6	15.5	7.7	13.1	18.8
Total domestic demand	40 333	102.6	8.2	-2.4	1.6	2.8	4.7	5.3	4.4	11.4	6.1
Stockbuilding[2]	534	1.4	0.0	0.8	0.8	-1.0	0.2	0.4	-0.5	0.6	-0.2
Final domestic demand	39 799	101.2	8.2	-3.2	0.8	3.7	4.3	4.9	4.9	10.9	6.5
Private investment	3 836	9.7	9.8	-11.7	-8.7	5.5	4.7	8.4	8.2	15.8	16.6
Public investment	5 299	13.5	18.4	-4.6	9.4	2.2	1.9	-5.3	23.2	9.9	3.0
Private consumption	27 111	69.0	6.6	-3.1	0.6	4.2	5.0	7.2	1.1	10.2	7.0
Public consumption	3 553	9.0	9.5	6.7	0.9	2.0	1.7	0.0	4.8	12.4	6.9
GDP at factor cost	35 628	100.0	7.1	0.9	3.6	4.5	3.9	6.0	4.2	7.3	6.5
Agriculture	6 586	18.5	3.2	2.4	0.1	6.4	-0.1	3.5	2.4	7.9	1.8
Industry	11 353	31.8	9.7	-1.8	7.4	4.9	8.0	10.1	6.3	8.7	10.0
Mining	756	2.1	15.8	-1.9	-7.3	-5.5	7.5	7.9	11.9	-6.3	5.2
Manufacturing	8 998	25.3	8.8	-2.5	9.5	5.4	8.7	10.2	5.5	9.6	10.3
Energy	1 599	4.5	13.4	5.4	7.0	11.6	2.2	11.1	7.8	15.5	11.1
Construction	1 411	4.0	7.1	3.0	0.4	0.5	0.6	1.9	2.9	8.3	6.7
Services	16 279	45.7	8.0	1.1	4.2	3.9	4.4	5.7	4.1	6.0	6.7

1 Provisional.
2 Changes expressed as per cent of GNP in previous period.
Source State Planning Organisation, *Main Economic Indicators*.

averaged an impressive annual increase of 9.9 percent, reaching a high of 16.6 percent in 1987 (Table 3).

Similarly, there has been a dramatic increase in productivity, primarily as a result of a decrease in inefficient public enterprises together with efficient new investment by the private sector. Table 4 depicts the total factor productivity (TFP) for Turkey since 1973 (i.e., the change in productivity as a measure of capital and labor input). During 1973-76, when total factor input grew on the average of 5.1 percent, output grew at a rate of 6.9 percent. Thus for this period TFP was 1.8

Table 3[19]

Gross fixed investment by sector

	1986 Current prices		Percentage volume change over previous year						
	TL billion	Share in %	1981	1982	1983	1984	1985	1986	1987[1]
Private sector									
Agriculture	250.4	6.5	27.5	9.2	7.0	2.1	-16.4	-14.5	23.4
Mining	51.4	1.3	1.3	8.6	4.4	4.3	25.4	7.9	35.4
Manufacturing	1 271.4	33.1	-2.0	0.6	1.0	5.9	6.0	13.2	-9.0
Energy[2]	48.0	1.3	6.7	3.9	5.7	12.8	-9.1	145.0	-13.8
Transportation	546.6	14.2	29.0	12.8	9.3	13.8	9.2	-8.1	1.7
Tourism	115.0	3.0	2.2	6.3	5.7	88.7	31.7	61.8	47.7
Housing	1 355.6	35.3	-34.7	4.8	5.0	8.8	14.9	36.7	43.3
Education	16.4	0.4	6.7	5.6	2.4	9.0	103.2	35.1	25.2
Health	23.4	0.6	6.0	4.3	1.7	7.0	140.2	44.5	11.8
Other services	157.9	4.1	4.4	2.2	2.6	10.1	8.7	8.6	8.4
Total	3 836.0	100.0 (42.0)	-8.7	5.5	4.7	8.4	8.2	15.8	16.6
Public sector									
Agriculture	354.8	6.7	54.6	8.0	-15.2	-5.5	-13.6	22.0	34.3
Mining	349.2	6.6	37.4	-17.4	19.4	-4.7	29.4	-26.2	-47.9
Manufacturing	515.8	9.7	-8.5	-15.9	-3.3	-17.4	6.8	-19.3	-38.4
Energy[2]	1 255.6	23.7	4.4	11.6	10.5	-7.0	12.0	12.3	0.5
Transportation	1 619.2	30.6	6.0	16.7	5.7	2.6	44.3	17.3	3.8
Tourism	131.8	2.5	21.2	-11.3	20.6	29.4	68.5	147.8	-5.0
Housing	98.3	1.9	34.9	-27.0	0.9	45.1	26.7	-18.4	-20.9
Education	182.3	3.4	22.8	22.0	-11.4	-12.3	28.2	5.8	-8.5
Health	72.2	1.3	36.8	9.7	-28.0	-8.9	-9.2	45.4	2.2
Other services	720.1	13.6	17.6	16.1	-5.7	-3.1	56.2	43.9	11.1
Total	5 299.3	100.0 (58.0)	9.4	2.2	1.9	-5.3	23.2	9.9	-3.0
Total gross fixed investment	9 135.3	(100.0)	1.7	3.5	3.0	0.1	16.7	12.3	5.2

1 Provisional.
2 Electricity, gas, water.
Source State Planning Organisation, *Main Economic Indicators*

percent. Since 1981, TFP has increased substantially. Thus, although there has been an overall reduction in the rate of investment in manufacturing, the capital base has become more efficient resulting in increased labor and capital productivity.

Table 4[20]

Total factor productivity

Average percentage changes at annual rates

	1973-76	1977-80	1981-84	1985-87
Output	6.9	1.3	4.3	5.5
Factor input	5.1	3.1	1.7	2.1
Total factor productivity	1.8	-1.8	2.6	3.4
Labour productivity	1.2	-0.8	2.9	3.9
Capital productivity	2.4	-2.5	2.5	3.0

Note The figures refer to the business sector (excluding general government and housing)
Source OECD Secretariat.

Challenges

Despite impressive growth in many sectors of the economy, Turkey continues to be plagued by unemployment, inflation, and government debt. Since 1980, the rate of population growth for those of working age has been running at 2.9 percent per year (Table 5). Coupled with this growth has been a migration of labor into the urban sector. Additionally, the participation ratio has declined, signalling a further increase in structural unemployment. As a result, even though employment opportunities in the industrial sector have increased, the overall unemployment rate has remained at the 15 to 16 percent mark.

Table 5[21]

Labour market

	1987[1] Thousand	Percentage change over previous year							
		1980	1981	1982	1983	1984	1985	1986	1987[1]
Population	52 059	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1
Population aged 15-64	32 354	2.9	2.9	2.9	2.9	2.9	2.8	2.7	2.8
Participation ratio (per cent)		63.1	62.3	61.5	60.8	60.0	59.4	58.8	58.1
Civilian labour force	18 804	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.6
Civilian employment	15 948	-0.1	0.9	0.6	0.7	1.3	1.1	2.0	2.3
Agriculture	8 757	-0.1	-0.1	-0.3	-0.3	-0.3	-0.2	-0.6	0.6
Industry	2 281	-1.3	2.9	1.8	3.0	3.8	3.4	5.9	4.9
Construction	686	-0.5	0.3	0.3	0.4	3.3	2.9	5.6	4.3
Services	4 224	0.6	2.8	2.7	2.4	3.8	3.0	4.3	4.3
Unemployment[2]	2 856	14.8	15.2	15.6	16.1	16.1	16.3	15.8	15.2
Unemployment excluding seasonal unemployment in agriculture	2 256	10.7	11.2	11.8	12.4	12.4	12.6	12.3	12.0
Productivity									
GDP		-0.4	2.7	3.9	3.2	4.6	3.1	5.2	4.1
Agriculture		1.8	0.2	6.7	0.3	3.8	2.7	8.6	1.2
Industry		-4.4	4.4	3.0	4.9	6.1	2.8	2.6	4.9
Services		0.2	1.4	1.2	2.0	1.8	1.1	1.6	2.3

1 Provisional.
2 As per cent of civilian labour force.
Source: State Planning Organisation, *Main Economic Indicators*

The second major problem facing Turkey today is the continuing high rate of inflation which has varied between 30 and 50 percent since 1981.[22] The generally accepted rationale for

these fluctuations is the continued rise in the government debt and an expansionary monetary policy which has led to an increase in demand.

The third and probably most dominant challenge for Turkey is its foreign trade and balance of payments. During the first six years after implementation of new exchange rate and trade policies, the annual growth in export volume equaled or exceeded 10 percent.[23] However, 1986 saw a reduction of 11.2 percent in manufacturing which led to a negative 2.3 percent overall (Table 6). The cause of this sudden reversal in demand for Turkish

Table 6[24]

Foreign trade[1]

	1986	1987	1980	1981	1982	1983	1984	1985	1986	1987
	$ million		Percentage change over previous year							
Exports (fob)										
Agriculture	1 886	1 853	24.4	32.8	-3.5	-12.2	-7.0	-1.7	9.7	-1.7
Mining and quarrying	247	272	44.2	1.3	-9.4	7.8	26.9	1.7	1.3	10.1
Manufacturing	5 324	8 065	33.4	118.6	49.8	6.7	40.6	16.5	-11.2	51.5
Total	7 457	10 190	28.7	61.6	22.2	-0.3	24.5	11.6	-6.3	36.7
Volume			10.9	68.7	23.9	10.8	23.0	10.0	-2.3	29.3
Average value			16.1	-4.2	-1.4	-10.0	1.2	1.5	-4.1	5.7
Imports (cif)										
Oil	2 008	2 956	125.6	0.4	-3.4	-2.2	-0.8	-0.7	-44.4	47.2
Industrial products	8 302	10 101	19.8	22.2	-0.1	11.2	22.9	9.6	17.7	21.7
Other	889	1 226	36.7	77.3	12.5	-13.1	104.1	-1.2	-6.3	37.9
Total	11 199	14 283	56.0	12.9	-1.0	4.4	16.5	8.0	-2.1	27.5
Volume			-1.3	11.7	-0.9	22.5	18.2	7.4	14.2	20.7
Average value			58.1	1.1	-0.1	-14.8	-1.4	0.6	-14.3	5.6
			Percentage distribution							
Exports (fob)			100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture			57.5	47.2	37.3	32.8	24.5	21.6	25.3	18.2
Mining and quarrying			6.5	4.1	3.0	3.3	3.4	3.1	3.3	2.7
Manufacturing			36.0	48.7	59.7	63.9	72.1	75.3	71.4	79.1
Imports (cif)			100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Oil			48.8	43.4	42.4	39.7	33.8	31.1	17.9	19.1
Industrial products			48.7	52.7	53.2	56.7	59.8	60.7	74.1	73.1
Other			2.5	3.9	4.4	3.6	6.4	8.2	8.0	7.8

1 Excluding transit trade.
Source: State Institute of Statistics, *Monthly Indicators*.

exports appears to be a combination of reduced oil prices which affected the ability of Middle East countries to import,

increased trade restrictions placed on Turkish imports by some of its industrialized trading partners, and a reduction in government export subsidies.

Middle East Exports

During the past seven years, Turkey's exports to the Middle East have increased dramatically from just over $600 million in 1980 to more than $3 billion in 1987. Prior to this, the major export market was the European Economic Community (EEC). But, with new trade policies in effect, it was only natural that Turkey looked to other Islamic countries for additional markets (Table 7).

Table 7[25]

Turkey's Exports to the World, EEC, and Middle East (in millions of US$)

Year	Turkey's Exports (total)	Exports to Middle East	Middle East as percent of total	Exports to EEC	EEC as percent of total
1976	1,960	238	12.1	960	48.9
1977	1,753	220	12.5	868	49.5
1978	2,288	323	14.1	1,095	47.8
1979	2,261	387	17.1	1,097	48.5
1980	2,910	630	21.6	1,251	42.9
1981	4,703	1,895	40.3	1,502	31.9
1982	5,746	2,543	44.2	1,755	30.5
1983	5,728	2,447	42.7	2,010	35.0
1984	7,133	2,768	38.8	2,731	38.2
1985	7,958	3,188	40.0	3,134	39.4

Source: State Institute of Statistics (SIS), Foreign Trade Statistics (1976–1985).

Table 8 shows the distribution of exports in the region. In absolute terms, exports have been highest to Iraq and Iran and continue to account for an increasing share of total exports to the region, rising from 31.2 percent in 1976 to 63.8 percent in 1985. Although not shown, exports to these two countries fell to 43.3 percent in 1986, then surged to a new high of 67.4 percent in 1987.[26] The high regional share of exports to these two countries is due to several factors in addition to the Iraq-Iran War. Both countries border Turkey which make them natural trading partners. Also Turkey is heavily dependent on oil and, therefore, anxious to maintain strong relations. Iran and Iraq likewise are interested in good relations as both have oil pipelines going through southern Turkey to the Mediterranean which provides them an outlet to markets other than through the Persian Gulf.

<u>Table 8</u>[27]

Distribution of Turkey's Exports among Middle Eastern Countries (in percentage of Turkey's total exports to the Middle East)

	1976	1978	1980	1981	1982	1983	1984	1985
Libya	4.1	15.3	9.5	23.3	9.2	7.5	5.1	1.8
Egypt	6.5	5.8	3.2	3.8	5.7	2.8	5.0	4.4
Lebanon	23.2	6.3	11.5	4.5	4.3	4.9	3.7	2.7
Syria	13.5	18.0	16.3	6.8	2.4	2.4	2.2	1.7
Iraq	17.2	21.4	21.3	29.4	24.0	13.0	33.7	30.1
Iran	14.0	13.8	13.4	12.3	31.1	44.4	27.1	33.8
Israel	2.1	2.0	1.2	0.4	0.3	0.4	0.3	0.3
Jordan	5.5	6.0	7.6	5.1	4.1	4.5	3.8	3.5
Saudi Arabia	7.6	5.4	6.9	9.8	14.0	14.9	13.6	13.4
Kuwait	5.5	5.0	7.9	3.7	3.4	3.5	3.8	3.6
Others*	0.8	1.0	1.2	0.9	1.5	1.7	1.7	4.7

Source: SIS Foreign Trade Statistics, (1976–1985).
*Others: Bahrain, Qatar, Abu Dhabi, South Yemen, and North Yemen.

Emirates, and South Yemen are countries to which Turkey started exporting seriously only after 1980.

Turkey has been able to increase exports to the Middle East without a corresponding decrease to the EEC primarily because these two regions are not in competition for the same Turkish products. As shown in Table 9, animal products, iron and steel,base metals, etc. are primarily exported to the Middle East whereas leather and fur products, mineral products, and textiles are in greater demand in the EEC. In fact, export similarity has been decreasing; nearly 40 percent of exports to both regions

Table 9[28]

Turkey's Trade with the Middle East and EEC according to Product Groups

(Percentage of total exports to the Middle East and to the EEC)

	Middle East			EEC		
	1976	1980	1984	1976	1980	1984
Animal Products	10.4	19.4	15.8	2.9	3.5	1.7
Vegetable Products	39.1	29.4	13.9	25.8	39.0	17.0
Prepared Foodstuffs	5.3	5.4	8.6	7.1	4.8	4.1
Leather & Fur Products	.0	0.3	0.2	5.5	2.7	6.7
Wood & Articles of Wood	0.5	0.8	1.5	.0	.0	0.1
Paper Products	0.3	0.3	1.4	.0	0.1	.0
Mineral Products	3.1	11.7	3.0	9.4	9.5	22.9
Chemical Products	3.1	2.8	2.7	0.8	1.2	1.1
Plastic Materials	1.2	0.7	1.3	.0	.0	0.3
Rubber Products	.0	1.2	1.4	.0	0.2	0.2
Textile & Clothing	9.5	11.1	14.9	44.7	32.7	40.9
Iron & Steel	3.6	1.4	17.6	0.2	2.1	0.9
Base Metals	8.7	2.6	3.0	0.4	0.4	0.4
Glass & Glassware	7.7	2.4	2.0	1.0	0.8	1.1
Machinery (non-electrical)	2.8	2.2	2.0	0.6	0.7	0.6
Machinery (electrical)	0.4	0.8	1.6	0.2	0.4	0.3
Ceramic Products	0.1	0.4	0.7	.0	0.1	0.1
Other	4.2	7.1	8.3	1.3	1.6	1.7

Source: Calculated from SIS Foreign Trade Statistics (1976, 1980, 1984) and Eurostat (1976, 1980, 1984).

were in the same product categories in 1980, but dropped to 28 percent by 1984. The importance of this reduction in export

similarity is that it is an indicator of Turkey's success in expanding the export structure which in turn assists in the broadening of its total economic base. Furthermore, a more diversified export structure contributes to the stability of foreign exchange earnings.

Turkey continues to be plagued by a mounting foreign debt which increased from $16.9 billion in 1981 to $38.3 billion in

<u>Table 10</u>[29]

External debt of Turkey[1]

Disbursed debt - End of period

$ million

	1981	1982	1983	1984	1985	1986	1987[2]
Medium- and long-term debt	14 667	15 855	16 104	18 078	20 590	24 317	29 612
Multilateral organisations	3 857	4 531	4 916	5 494	6 157	6 588	7 780
IMF	1 322	1 455	1 572	1 426	1 326	1 085	770
World Bank, IDA, IFC	1 783	2 115	2 488	3 044	3 470	3 643	4 452
European Investment Bank	427	420	393	391	429	573	676
European Resettlement Fund	287	384	399	554	801	1 197	1 757
Islamic Development Bank	23	117	22	35	35	53	91
OPEC Fund	15	40	40	40	35	29	25
International Fund for Agricultural Development	-	-	2	4	7	8	9
Bilateral credits	6 712	7 115	6 560	7 204	7 955	10 187	12 316
OECD countries	5 901	6 146	5 607	5 987	6 528	8 270	10 324
OPEC countries	449	587	535	603	640	1 027	1 118
Other countries	362	382	418	614	787	890	874
Commercial banks	3 257	3 229	3 262	3 704	4 351	4 833	5 702
Rescheduled debt	2 606	2 509	2 360	2 081	1 973	..	..
Guaranteed credits	95	15	7	177	417	..	
Non-guaranteed credits	556	705	895	1 446	1 961	.	.
Private lenders	841	980	1 366	1 676	2 127	2 709	3 814
Dresdner Bank scheme	..	400	758	1 326	1 858	2 480	3 651
Other	841	580	608	350	269	229	163
Short-term debt	2 194	1 764	2 278	3 180	4 759	6 911	8 692
Bankers' credits	-	-	65	195	432	944	1 883
Overdrafts	69	48	164	417	376	77	282
Acceptance credits	230	276	318	703	1 093	1 061	1 206
Prefinancing credits	330	199	254	414	609	629	523
CTLDs	473	585	647	61	18	6	3
Dresdner Bank scheme	472	417	493	452	820	1 308	1 966
Other foreign currency deposits	-	-	83	544	724	1 250	1 701
Other	620	239	248	394	687	1 636	1 128
Total debt	16 861	17 619	18 385	21 258	25 349	31 228	38 304
Memorandum items (in per cent)							
Total debt/GNP	28.3	32.5	35.6	42.1	47.4	53.5	56.6
Medium- and long-term debt/GNP	24.6	29.2	31.2	35.8	39.2	41.6	43.7
Short-term debt/GNP	3.7	3.3	4.4	6.3	8.2	11.9	12.9
Short-term debt/total debt	13.0	10.0	12.4	15.0	18.8	22.1	22.7
Total debt/exports of goods and services	196.6	176.7	196.9	186.5	188.9	244.0	228.0

1 Excluding military debt and debt under trade arrangements with some Eastern European countries

2 Provisional

Source Central Bank of Turkey, *Annual Reports*

1987, an increase of 22.7 percent in seven years (Table 10). Although this increase could be viewed as an indication that Turkey's credit worthiness has also been increasing, the fact remains that the size of the debt makes economic expansionism more difficult. For example, in 1981 the debt was only 28 percent of GNP as compared to 57 percent in 1987. The increase in the overall debt, coupled with debt payment rescheduling agreements which are now coming due, have caused the servicing of the foreign debt to rise to 8 percent of GNP, more than three times its size in 1980.

Another way of viewing the problem is to compare exports with the cost of servicing the debt. As show at Table 11, debt

Table 11[30]

External debt service

$ million

	1980	1981	1982	1983	1984	1985	1986	1987[1]
Debt service	1 399	1 920	2 547	2 708	2 927	3 866	4 657	5 508
Interest	668	1 193	1 466	1 442	1 586	1 753	2 134	2 507
Principal[2]	731	727	1 081	1 266	1 341	2 113	2 523	3 001
Exports of goods and services	5 848	8 578	9 973	9 337	11 401	13 421	12 797	16 789
Debt service ratio (in per cent)	23.9	22.4	25.5	29.0	25.7	28.8	36.3	32.8
Debt service ratio to exports (in per cent)	48.1	40.8	44.3	46.0	39.6	46.8	61.4	53.4
Debt service/GNP (in per cent)	2.4	3.2	4.7	5.2	5.8	7.2	8.0	8.1

1 Provisional

2 Including IMF repurchases.

Source: Central Bank of Turkey, *Annual Reports*

servicing costs, including both interest and principle, have increased dramatically since 1980 and are now more than $5 billion. The debt service ratio compared to exports of all goods

and services rose from 23.9 percent in 1980 to 32.8 percent in 1987. When compared to merchandise exports, servicing costs have fluctuated between 48.1 percent and 53.4 percent. Thus, Turkey's external debt service ratio has continued to rise compared to exports, despite significant growth in the latter.

ECONOMIC OUTLOOK

Substantial progress has been made since 1980. GNP growth has fallen below 6 percent only once in the past four years and total employment has continued to rise. Demand has also been strong, particularly in exports, domestic consumption and investments. Additionally, there has been improvement in the current balance account deficit which has decreased from $1.5 billion in 1986 to less than $1 billion in 1987. However, challenges remain in several areas. The expansionary and fiscal monetary policies since 1985 have led not only to increased demand, but a resurgence of inflation. Thus, one of the government's objectives has been to reduce the budget deficit from 4.2 percent of GNP to 2.2 percent in 1988 through increased taxes and stronger restrictions in spending.

With fiscal policy reflecting restraint in public spending, there is concern regarding Turkey's ability to continue to provide the social and economic programs necessary for a growing and more urbanized population. Accordingly, it is important to continue the gains made in the export market. Yet, continued growth in exports is dependent on the further development of

industrial productivity. Hence, the reduction of inflationary pressures through monetary and fiscal policies to hold down prices and bring the debt under control, without dampening investment and boosting an already high unemployment rate, remains a challenge for the Turkish government.

Turkey can be proud of its accomplishments and has reason for optimism. Compared to Latin American debtor countries, the economic growth of Turkey over the past eight years has exceeded all expectations. For example, "The Baker 15 highly indebted nations must now generate trade surpluses of about $30 billion annually to service their debts...."[31] In fact, "The 1980's have been a lost decade for most of these [Third World] countries, with per capita incomes lower now than a decade (or in some cases, even two decades) ago."[32] Only Turkey and the newly industrialized countries of East Asia have been successful. Turkey is changing rapidly. Today it is one of the strongest, most stable countries in the region. With economic, military and political strength comes ever increasing opportunities for leadership. It is this leadership role in the Middle East that the United States should encourage and support.

ENDNOTES

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7. Tachau, p. 100.

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9. George S. Harris, Turkey, Coping with Crisis, pp. 76-77.

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12. Ibid., p. 80-84.

13. Organisation for Economic Co-operation and Development (OECD), Economic Surveys 1986/1987, Turkey, p. 75.

14. Ibid., p. 78.

15. Ibid., p. 11.

16. OECD, Economic Surveys 1983-1984, Turkey, pp. 21-33.

17. Ibid., p. 21.

18. OECD, Economic Surveys 1987/1988, Turkey, p. 12.

19. Ibid., p. 13.

20. Ibid., p. 15.

21. Ibid., p. 17

22. See OECD, Economic Surveys 1983-1984, Turkey, p. for data from 1980 to 1983 and OECD, Economic Surveys 1987/1988, Turkey, p. 18 for data from 1984 to 1987.

23. OECD, Economic Surveys 1987/1988, Turkey, p. 23.

24. Ibid., p. 24.

25. Halis Akder, "Turkey's Export Expansion in the Middle East, 1980-1985," The Middle East Journal, p. 555.

26. See OECD, Economic Surveys 1986/1987, Turkey, p. 22, and OECD, Economic Surveys 1987/1988, Turkey, p. 28.

27. Akder, p. 556.

28. Ibid., p. 558.

29. OECD, Economic Surveys 1987/1988, Turkey, p. 33.

30. Ibid., p. 34.

31. C. Fred Bergsten, America in the World Economy, p. 158.

32. Ibid., p. 159.

CHAPTER III

NATIONAL SECURITY INTERESTS

TURKEY AND THE MIDDLE EAST

Turkey not only serves as a barrier to Soviet incursion into the southern flank of NATO, it also blocks their expansion into the Middle East. In fact, it is Turkey's geostrategic position and its strong alliance with the West that has allowed other Middle East countries the opportunity to deal with the Soviet Union without fear of direct military intervention by Moscow when disagreements arise:

> "It is in large measure thanks to the existence and effectiveness of the Turkish barrier that Soviet successes in the Arab countries, though often great, were always precarious, leaving the rulers of those regions the option of reducing or even eliminating Soviet influence if they so chose. This was an option that countries like Poland, Czechoslovakia, Hungry, and more recently Afghanistan - all situated on the frontier or within easy reach of the Soviet Union - do not have. Several Middle Eastern governments which at various times flirted with the Soviet Union, and some of which acted as hosts to Soviet troops and even bases, have been able to terminate that relationship at will, precisely because they were protected from direct Soviet intervention by the land barrier of what was once known as the Northern Tier."[1]

Hence, Turkey has become increasingly important, not only to the United States, but to Arab states. Yet Turkey has not

always maintained friendly relations with its Moslem neighbors. Though they share a common background, there was a period of antagonism following Turkish independence after World War I. Turkey continued its efforts to modernize, both economically and politically, along the lines of Western Europe. The Arabs, on the other hand, had become increasingly anti-western as a result of continued domination by European powers. Thus, Turkey's western orientation was viewed by most Arabs as a departure from the rest of the Islamic world. The final break came in 1948 when "Turkey became the first Muslim country to recognize Israel and took the lead in the process towards the creation of the ill-fated Middle East Defense Organization which would serve Western interests and aimed at rallying the Arab countries against the Soviet Union."[2] Over the next several decades Turkey was viewed as a Western surrogate that had renounced its place among Moslem nations.

The thaw in relations began in the 1960's when Turkey's foreign policy stance toward Middle Eastern affairs shifted. The lack of United States support for Turkey during the Cyprus crisis in 1964 led Ankara to reevaluate its relations with Washington and in 1967 it refused the United States permission to use Turkish air bases in support of Israel during the Arab-Israel War. Six years later Turkey reiterated that it would not allow its territory to be used by any foreign country (including the Soviet Union) as a springboard for military operations in the Middle East, to the obvious delight of the Arab nations. Since then, the Turkish government has categorically stood firm on that

policy. Simultaneously, Turkey began the slow process of mending its cultural and diplomatic ties with the Arab nations. In 1969, the Prime Minister attended an Islamic Conference for the first time and since then Turkey has become an active member. Today Turkey plays full time host to the Statistical, Economic and Social Research and Training Center for Islamic Countries and the Research Center for Islamic History, Art and Culture, the directors of which are Turkish scholars.[3]

The rise of Turkey as an influential member of the Islamic community is directly related to improved economic conditions at home and increased trade of both goods and services to the Arab states. Increased influence suggests a stronger voice in issues affecting the region. This does not imply that Turkey will become a leader in the Arab world. Although historical, cultural, and religious ties exist, Turkey also faces certain limitations which cannot be overcome. The most important limitation is that the majority of the population "...originally came from Central Asia and as a Ural-Altaic people carried with them their Asian and nomadic characteristics, some of which still affect Turkish identity in many aspects of socio-political life."[4] Although geographically located in the northern-most portion of the Middle East, it is also the southern-most country in Europe. "Consequently, Turkey may be considered as a synthesis of at least three fundamental connections: Asian, Middle Eastern and European."[5]

Turkey's foreign policy stance, in recognition of its unique geographical position, historical ties and economic

relations with the Middle East, has forced the government to steer a relatively neutral, middle of the road course. Prime Minister Ozal,[6] in a speech to the Turkish Grand National Assembly on 25 December 1987 reaffirmed Turkey's foreign policy in the region and stressed a commitment to "...expand the close relations of friendship and cooperation possibilities already established with Middle Eastern and other Islamic countries throughout the world as a natural outcome of our geographical location and historical and cultural ties."[7] He also stressed its position of neutrality regarding the Iraq-Iran War and recognition of "Palestinian rights" with regard to Israel.

Turkey's movement toward stronger relations with the Arab world is not contradictive to its relationship with the United States and EEC countries. Turkey has long looked toward the West in foreign policy matters and improved relations with the Middle East does not change this orientation. If anything, it makes Turkey an even more valuable partner, one that is not only totally committed to NATO and the principles of freedom and democracy, but also enjoying a degree of influence in the Middle East.

TURKEY AND THE UNITED STATES

Turkey and the United States have maintained diplomatic relations since the Nineteenth Century, but it was not until

Stalin's postwar expansionist policies resulted in the Truman Doctrine in 1947 that relations became close.

> "The period from 1947 to the early 1960's was one of almost full convergence of American and Turkish policies. Turkey had found the strong outside support needed to resist the Soviets over the long haul; and American policymakers, eager to line up reluctant nations in Europe and Asia for defensive pacts such as NATO and SEATO, found the Turks an enthusiastic ally."[8]

Thus, there developed a friendship which focused primarily on Soviet containment.

However, beginning in the late 1950's a series of events began to place strains on Turkish-American relations. In 1958, the United States used the Incirlik Air Base to support its military operations in Lebanon. Although the Turkish government approved its use after the fact, there was a vocal outcry from opposition leaders questioning the appropriateness of a foreign power using sovereign Turkish soil for its own military purposes. The withdrawal of Jupiter missiles from Turkey by President Kennedy in 1962 during the Cuban missile crisis, without first consulting Ankara, furthered the debate regarding America's respect for Turkish sovereignty.[9] Two years later, during the Cyprus dispute between Turkey and Greece, "...President Lyndon Johnson kept Turkey from invading Cyprus by the blunt threat of reconsidering NATO's 'obligation to protect Turkey against the Soviet Union'."[10] Since then, Greek-Turkish tensions have become a major factor in relations between Ankara and Washington.

Cyprus Intervention

On July 15, 1974, a Greek sponsored coup overthrew the president of Cyprus, Archbishop Makarios. His replacement was Nicos Samson, a known supporter of Greek unity (enosis) and an anti-Turk terrorist. Concerned for the safety of Turkish Cypriots, Turkey immediately requested British intervention since Great Britain was one of the three signatories guaranteeing Cyprus' independence (Greece and Turkey being the other two).[11] When Great Britain refused, Turkey decided to intervene. "Turkey expected, if not open approval of its role in Cyprus following the Greek junta coup d'etat, at least no serious negative reaction from the United States."[12] To the surprise of the Turks, the United States Congress was vehement in its opposition and rejected Ankara's rationale that it had the right and responsibility to intervene as one of the signers of the 1960 Cypriot Treaty of Guarantee. Instead, Congress argued, Turkey had violated the Mutual Defense Pact of 1959 and the Foreign Assistance Acts of 1962 and 1974 by using United States weapons for other than their intended purpose, "self-defense". Amid objections from the Executive Branch, Congress overwhelmingly approved a Turkish Arms embargo that went into effect on February 5, 1975.[13] It was not until 1979 that aid to Turkey was fully restored and then it was only after the repeated urging of President Carter and the aftermath of the Iranian Revolution.

The Greek Equation

The Cyprus crisis added fuel to other long standing disputes between Greece and Turkey.

> "The Athens government from 1974 to 1980 withdrew from active military participation in NATO. It also proclaimed an extension of its territorial waters around Greece's islands from six to ten miles--which, if accepted, would close off Turkish passage from the Straits and its Aegean harbors to the Mediterranean and protested Turkey's search for oil under the disputed waters. There has been a further prolonged dispute as to which country should control air traffic over the Aegean. And in 1982, Greece--aginst the explicit provisions of the 1923 Treaty of Lausanne and over sharp Turkish protests--the island of Lemos at the western end of the Turkish Straits."[14]

Under strong pressure from the Greek lobby, the United States Congress has continued to use threats of economic and military aid sanctions to influence Turkey's foreign policy stance toward Greece and force concessions on the Cyprus issue. Shortly after election to prime minister in 1981, Andreas Papandreou was successful in obtaining "...the Greek demand for U.S. Military assistance to be allocated according to a ratio of 7 to 10 between Greece and Turkey."[15] And on March 28, 1984, the Senate Foreign Relations Committee voted in favor of a resolution which would have withheld $215 million in military aid to Turkey unless the Turkish Cypriots agreed to certain concessions sponsored by Greece.[16]

The Cyprus and Aegean disputes between Turkey and Greece continue to be the biggest thorn in Turkish-American relations, particularly with the United States Congress. Recent dialogue

between the two prime ministers has resulted in the easing of tensions between the two countries and may lead to successful solutions in the future. On other major regional issues, Ankara and Washington appear to be in general agreement.

UNITED STATES NATIONAL SECURITY INTERESTS IN THE MIDDLE EAST

With the exception of Iran, with whom economic relations have been reasonably strong, Turkey's foreign policy stance in the Middle East is in broad consonance with United States policy. In January 1988, President Reagan stated in his National Security Strategy report to Congress that "we remain deeply committed to helping forge a just and lasting peace between Israel and its neighbors. Our regional goals also include limiting Soviet influence, fostering the security and prosperity of Israel and our Arab friends and curbing state-sponsored terrorism."[17] He went on to state that Persian Gulf objectives remain "...maintaining freedom of navigation; strengthening the moderate Arab states; reducing the influence of anti-Western powers, such as the Soviet Union and Iran; and assuring access to oil on reasonable terms for ourselves and our allies."[18]

The objectives of both countries are complementary rather than contradictory. First, Turkey likewise requires "access to oil on reasonable terms" given that it imports 80 percent of its domestic requirements. This also applies to "freedom of navigation" since a disruption to sea lanes in this region would

lead to increased oil prices. Second, Ankara stands ready to oppose any Soviet incursion into the region. Third, it is in Turkey's interest that peace and stability be achieved in the region if for no other reason than furthering economic trade. Finally, state-sponsored terrorism has been a continuing problem for Turkey, particularly among the Kurdish population.

The only two issues which, on the surface, appear to conflict are those dealing with Israel and Iran. Yet, even on these two emotional issues, Turkey and the United States are not as far apart as one might think. Ankara has supported Israel's right to exist since 1947. It continues to support all reasonable peace efforts and, although never publicly supporting the Camp David accords between Egypt and Israel in 1978, Turkey welcomed them in private.[19] Even in regard to the Palestinian issue the two governments are not very far apart. Although Turkey has publicly stated that it supports an Israeli withdrawal from Arab lands occupied since 1967, the United States has also, on numerous occasions, incorporated land for peace proposals in its peace initiatives.

Regarding the Iranian issue, since the revolution in 1979 Ankara has been careful not to upset the very delicate economic and diplomatic relations between the two countries and, during the Iraq-Iran War, Turkey maintained a position of strict neutrality. Consequently, Turkish exports continued to flow to both countries during the conflict. Shown earlier at Chapter II, Table 7, their share of Turkey's exports to the Middle East accounted for 60 percent of total exports to the region in 1985.

Cessation of hostilities between the two countries is expected to provide even greater opportunities for Turkish exports and entrepreneurial expertise.

It is against this background that Turkey's relationship with Arab nations may be of more value to the United States than one might initially expect. For all its economic strength and military power, the United States has been unable to project any significant, direct influence in the region. In fact, it has been reasonably argued that:

> "...our occasional interventions into the domestic politics of the Middle Eastern countries have regularly miscarried. At times the failure was immediate and obvious, as in the fiasco of Carter's hostage rescue attempt in Iran (1980) or of Reagan's dispatch of Marines into the midst of a Lebanese civil war (1982-84).... By contrast, Washington's Mideast policy registered notable successes when mediating between parties willing to make peace - as at Camp David; or in responding to the requests of friendly countries for protection from aggressive neighbors - as in the dispatch of AWACs planes in 1984 to avert Libya's threat to Egypt, and to counter Iran's threat to Saudi oil ports."[20]

Although today the United States is the dominant outside power in the region, it remains an outsider. Friendly relations exist with many Arab countries from Morocco to Pakistan. However, as history has often demonstrated, the United States cannot achieve its national interests and objectives independent of others. It requires the active support of allies and friends who have the same commonality of interests. Past policymakers have advocated that Israel "...should be our chief 'strategic ally' in the Middle East and thus provide the basis for a

'regional consensus'."[21] But Israel is severely hampered by its ongoing conflict with the Arab world. Arab nations friendly to the United States are also in a dilemma. Although they may privately support Washington's initiatives in the region, they cannot afford becoming tied too closely to the United States for fear of being labeled an American surrogate.

POLICY IMPLICATIONS

Despite these problems, an effective policy of dealing with the Middle East can be implemented. As an outsider, the United States is limited in its ability to exert a direct influence in regional issues. Yet, conflicts of interest do not always have to be met head-on. "If the United States recognizes the counterbalancing interests that are available in this dynamic environment, frequently it will be able to work indirectly and take advantage of the opportunities presented to alter somewhat the balance of pressures in the region."[22] Ideally, the indirect approach results in the other party taking a course of action favored by the United States, not because they were asked to, but because they determined that it was in their own national interests to do so. Turkey fits neatly in this category and the combination of being European, with an Asian heritage and strong cultural and religious ties to the Middle East, makes it an ideal partner for bridging the political and diplomatic gap between the Arab nations and the West. As Turkey continues to strengthen its economy and expand economic relations with the other nations of

the Middle East, so should its influence continue to grow. The West, and particularly the United States, should not be resistant to this course of events. Rather, Turkey's growing influence should be encouraged.

A STRATEGY FOR THE FUTURE

The most effective means by which the United States can support Turkey in this role is through the employment of a variety of economic instruments. This support would accomplish several things. First, economic strength and stability will allow Turkey to shoulder its NATO responsibilities without massive military aid from its allies. Thus, NATO's southern flank would not only be strong but largely self-sufficient. Second, a strong economy means new and stronger markets for American products which is of particular concern today given the current trade deficit facing the United States. Third, it would have a stabilizing influence on other Middle East countries; a clear example of what can be accomplished under a free market, competitive economic system. Fourth, it provides an ally whose interests and objectives are compatible with those of the United States, in a position of strength and influence in the region. Finally, it reaffirms United States leadership in the international arena, demonstrating that it has a developmental, instead of just a political and military, interest in third world countries.

Economic growth requires that Turkish goods and services remain competitive in the international market over time. Heretofore, this competitiveness has been achieved principally through the depreciation of the Turkish lira which caused a reduction in the price of its goods and services relative to the international market. However, this approach has its own limitations:

> "For one thing, it causes strong pressure of costs - including wages - on prices, and therefore complicates inflation control - a key consideration in present circumstances. A second difficulty with a strategy that relies on real exchange rate depreciation to maintain export-led growth is that the country suffers capital losses on its foreign debt, which automatically rises (sic) the ratio of external debt to domestic output.... It is accordingly important for the necessary continuing gains of export market share to become less dependent than hitherto on real depreciation of export subsidies, and more dependent on 'non-price' improvements, notably a wider range of products and of market outlets."[23]

"Non-price" improvements mean increased investment. Yet, recent investment has been disappointing. Here is where Washington could exert its influence at little cost to its federal budget, by encouraging United States firms to provide foreign direct investment and the accompanying expertise and know-how. Recognizing the need for substantial foreign direct investment, Turkey has implemented several programs designed to attract outside capital. One formula now being offered, which has been successfully applied in other countries, is "build-operate-transfer" (BOT). Foreign firms finance the construction of a project, own and operate it jointly with a Turkish partner

for a specified period of time, and are guaranteed an agreed-to rate of return throughout the joint ownership period. "Earnings cover the cost of engineering, design, consultant and construction services, and equipment. Once repayments are complete, they are free to transfer ownership by selling their stake in the joint venture company."[24] Yet foreign firms have been reluctant to enter into these arrangements. The investors are concerned about the uncertainties of recouping their investment, particularly in light of the Third World debt crisis today.

This offers the United States an excellent opportunity to improve its own international position and simultaneously stimulate the Turkish economy. Instead of providing additional funds to Turkey in the form of economic assistance, which only exacerbates the current United States deficit, it could underwrite direct investment of United States firms. This protective umbrella provided to American companies would substantially reduce fears of default by Turkish partners or instability within the economy. These arrangements would benefit all parties concerned. For example, suppose the United States was planning to provide Turkey $150 million in economic aid (in 1984, the Economic Support Fund alone provided 138.5 million). Assume also, for purposes of explanation, that the cost of underwriting foreign direct investment was 10 percent of the total amount invested. In this hypothetical situation, the United States government could provide $100 million in direct economic aid to Turkey, and retain $50 million to underwrite $500

million in investment from United States firms. Given this scenario, the total cost to the United States government in support of its friend and ally would not change. From Turkey's perspective, instead of receiving a $150 million stimulus to its economy, it would receive $550 million, a 366 percent increase. Finally, investors would benefit by being assured that they could recoup their investment, to include whatever guaranteed rate of return was agreed to in their contract.[25]

Additional measures which could be undertaken are in the area of trade. In 1986, exports to the United States accounted for approximately seven percent of Turkey's total exports ($549 million), yet that was less than 00.2 percent of total United States imports. Thus, even if Turkish imports to the United States were to double, the impact on the United States' trade balance would be infinitesimal.[26] As discussed earlier, two of Turkey's leading exports are textiles and ready-to-wear clothes. Unfortunately,, although the United States has championed the cause of eliminating barriers to trade world-wide, the 1988 Annual Report of the Council of Economic Advisors pointed out that "Two of the most protected industries in the United States today are textiles and apparel. The costs which this protection places on the American family and consumer are enormous, running in the range of $200 to $400 per year per household."[27] The report went on to state that these industries did not need greater protection. In fact, it implied that this protection should be greatly reduced or eliminated. But due to special interests, internal pressure, and protectionism, legislation was

passed in 1987 by

the House of Representatives "...which would raise the wall of protection even higher, adding another $280 to $420 in costs per household over the first 5 years."[28] Surely this degree of protectionism is not in the best interests of the United States and its consumers.

The purpose of this discussion is not to provide a cure-all for resolving Turkey's economic difficulties. Nor is it to provide a comprehensive economic program for the United States. Rather, it is to demonstrate that ways exist for the United States to contribute to Turkey's recovery while simultaneously improving its own economic posture and moving toward the fulfillment of its national security objectives in the Middle East.

ENDNOTES

1. Dankwart A. Rustow, Turkey; America's Forgotten Ally, p. vii.

2. Oral Sander, "Turkey and the Middle East," Turkish Review Quarterly Digest, Winter 1987, pp. 53-54.

3. Ibid., pp. 51-60.

4. Ibid., p. 49.

5. Ibid., pp. 49-50.

6. Turgut Ozal was elected Prime Minister on 6 November 1983.

7. "Document 1: Government Programme," Turkish Review Quarterly Digest, Winter 1987, p. 130.

8. Rustow, p. 90.

9. Campany, Turkey and the United States, the Arms Embargo Period, p. 24.

10. Rustow, p. 9.

11. Campany, p. 34.

12. Ibid., p. 79.

13. Ibid., pp. 55-56.

14. Rustow, p. 100.

15. Harris, Turkey, Coping with Crisis, p.201.

16. Makenzie, Turkey in Transition: The West's Neglected Ally, p. 20.

17. Ronald Reagan, National Security Strategy of the United States, p. 29.

18. Ibid., p. 29.

19. Sander, p. 60.

20. Rustow, p. 112.

21. Ibid., p. 114.

22. Fredrick H. Hartmann and Robert L. Wendzel, Defending America's Security, p. 315.

23. OECD, Economic Surveys - Turkey 1987/1988, p. 94.

24. "Turkey", South, March 1987, p. 46.

25. See the article by Theodore H. Moran, "Shaping a Future for Foreign Direct Investment in the Third World", The Washington Quarterly, for a more indepth analysis.

26. OECD, Economic Surveys - Turkey 1987/1988, p. 28, and OECD, Economic Surveys - Turkey 1986/1987, p. 22.

27. The Annual Report of the Council of Economic Advisors, February 1988, p. 149.

28. Ibid., p. 149.

CHAPTER IV

CONCLUSION

Since 1980, Turkey's economic strategy has been remarkably successful: real GNP has registered more than 5 percent annual growth, total factor productivity has climbed to 3.4 percent, and increased exports have reduced the current external deficit by more than 30 percent. Turkey is the only debtor nation, other than Taiwan and Korea, to register such impressive results. Complementing these economic gains have been improved cultural and diplomatic relations with other Islamic countries. Recognizing its unique strategic location, historical ties, and improved relations, Turkey's foreign policy toward the Middle East has been one of neutrality and cooperation. At the same time, Turkey remains deeply committed to, and a close ally of, the United States.

The major variance in United States-Turkish relations has been Turkey's disputes with Greece. Across the broad spectrum of national interests, however, the policies of both Ankara and Washington are in consonance with each other. On the one hand, Turkey serves as a barrier to Soviet incursion into the southern flank of NATO and the Middle East. Continued economic success can only strengthen this barrier, allowing Turkey to become a more self-sufficient partner in the alliance. Furthermore, United States' national security interests in the Middle East

[access to oil, limiting Soviet influence, peace and stability, etc.] complement Turkey's own interests. Thus, improved relations with the Arab states make Turkey more valuable to the United States than just as a barrier to Soviet expansion. As an "outsider" the United States is hampered in its ability to exert a direct influence in the region. Linked to both the Middle East and the United States, Turkey offers the potential of bridging the gap. Success in this new role, however, presupposes Turkey's continued economic growth and influence. "...Turkish and American interests in the Middle East converge and coincide more closely than ever."[1]

Yet, Turkey's economic recovery remains uncertain. Expansionary and fiscal policies, which stimulated the economy, have also contributed to a dangerously high inflation rate. In the labor market, urban migration, coupled with a 3 percent population growth rate for those of working age, has offset increases in employment opportunities. Additionally, foreign debt continues to siphon off funds which could otherwise be used to assist in the expansion of the capital base. Hence, exports and foreign direct investment remain a critical ingredient in Turkey's continuing efforts toward economic growth and stability.

The United States has a unique opportunity to assist in this effort. What Turkey needs today is not just more "aid," but foreign investment to assist in broadening its economic base and markets abroad to further enhance its international trade posture. The United States could contribute to both of these efforts, at no additional cost to the federal budget, by

providing investment incentives to American firms and reducing existing trade barriers on Turkish goods. [In recognition of the Cyprus issue, these same measures could also be applied to Greece.] The "direct" benefits of implementing such policies would be a stronger ally on the southern flank of NATO and greater trade opportunities for both countries. The "indirect" effect would be a potential bridge for the United States into the Middle East.

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26. "Turkey." South, Vol. 77, March 1987, pp. 37-55.